Supreme Court, U.S.
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No. 94-1992

In the
SUPREME COURT OF THE UNITED STATES

October Term, 1994

Ferag AG, *Petitioner*
v.
Quipp Incorporated, *Respondent*

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITIONER'S REPLY TO BRIEF IN OPPOSITION

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ARGUMENT

I. THIS CASE MEETS IMPORTANT RULE 10 CRITERION

Sup. Ct. R. 10 neither controls nor fully measures this Court's discretion in granting review, but it is satisfied in the case at bar. According to Rule 10, the following circumstances will be considered in granting a writ:

> (a) When a United States court of appeals has rendered a decision in conflict with the decision of another United States court of appeals on the same matter ...; [or]
>
> * * *
>
> (c) When a state court or a United States court of appeals ... has decided a federal question in a way that conflicts with applicable decisions of this Court.

Petitioner submits that the decision of the Court of Appeals for the Federal Circuit conflicts with the following decrees of this Court and decrees of its own:

Icicle Seafoods, Inc. v. Worthington, 475 U.S. 709 (1986);

Anderson v. Bessemer City, N.C., 470 U.S. 564 (1985);

Envirotech v. Westech Engineering Inc., 904 F.2d 1571 (Fed. Cir. 1990); and

Hybritech, Inc. v. Monoclonal Antibodies, Inc., 802 F.2d 1367 (Fed. Cir. 1986).

For this reason, and those given in its Petition, it is submitted that "special and important" circumstances which Rule 10 defines are present.

II. THE FEDERAL CIRCUIT DID NOT FOLLOW RULE 52(a)

A. Only By Ignoring the Strictures of Rule 52(a) was the Federal Circuit able to Interpret Section 102(b) Unfavorably to Patentees.

The Federal Circuit's disregard for proper review procedures is manifest in its failure to even refer to Rule 52(a). Respondent argues that "no authority can be cited for the proposition that the Federal Circuit is required to expressly cite Rule 52(a)." However, in Dennison Manufacturing Co. v. Panduit Corp., 810 F.2d 1561, 1564 (Fed. Cir. 1986), the Supreme Court granted certiorari and remanded proceedings because "[t]he Federal Circuit ... did not mention Rule 52(a), did not explicitly apply the clearly erroneous standard ... and did not explain why ... Rule 52(a) had no applicability." In the present case, the Federal Circuit's bare footnote to the effect that "the district court clearly erred" falls far short of meeting its obligations under Rule 52(a).

Respondent further argues that Petitioner's cite of Burke Elec. Co. v. Indep. Pneumatic Tool Co., 234 F. 93 (2nd Cir. 1916), for the proposition that the "on-sale" provision should be construed favorably to patentees, is inapposite because that interpretation applies only to judicial scrutiny of Section 102(b)'s

predecessor, R.S. 4886. Respondent alleges that the language of the statutes are "different," so that construction of the older provision is irrelevant to application of the newer. Respondent is incorrect. According to Federico, T, 35 U.S.C.A. - 2, "[p]aragraphs (a), (b) and (c) [of 102(b)] are restatements of the conditions in R.S. 4886 with no changes other than in language due to their being placed in a separate section and in separate lettered paragraphs." As such, Burke Elec. Co. is pertinent.

B. The Federal Circuit Failed to Properly Apply the "Clearly Erroneous" Standard to Underlying Factual Determinations.

Petitioner acknowledges that any "on sale" determination is ultimately one of law, but one based on numerous factual inquiries. [A11]. As such, the Federal Circuit's decision should have been the end-product of a Rule 52(a), "clearly erroneous," review. Under that standard, if the district court's account of the evidence was plausible in light of the entire record, the Federal Circuit could not reverse, even though it might have weighed facts differently. Anderson v. Bessemer City, N.C., 470 U.S 563 (1985). Where the evidence permits two conclusions, the district court's choice between them can never be clearly erroneous. Id. Petitioner submits that a proper application of Rule 52(a) warrants only one conclusion -- that Ferag AG did not place its EPI-EPII grippers "on sale" prior to January 15, 1980.

In the present case, the district court made factual findings of particular relevance to both the Ferag AG-Ferag, Inc. control issue and the disputed Ferag AG-Bergen transaction.

[A46]. Despite the fact that the Federal Circuit was, for Rule 52(a) purposes, limited to those determinations in formulating its own conclusion, Icicle Seafoods, Inc. v. Worthington, 475 U.S. 709, 714 (1985), additional findings were nonetheless considered. For example, the panel declared that the applicability of Section 102(b) "depends on whether the seller so controls the purchaser that the invention remains out of the public's hands," [A12], and found those entities separate "[b]ecause Ferag could not control Ferag, Inc.'s marketing of the invention." [A13]. Not only did the district court decline to make a similar finding, but the parties' "Operating Agreement" explicitly states just the opposite:

> "The Company's [Ferag Inc.'s] business shall be the marketing ... of FERAG Products ... The Company [Ferag Inc.] shall not substantially change the nature of its business without the prior written consent of AG." [A65].

In fact, the relationship of Ferag AG and Ferag, Inc. was so close that Malcom Borg, Chairman of Bergen's Board, stated, "Ferag, Inc. was nothing more than a foreign subsidiary...for Ferag AG." (Borg Dep., P. 74). Inconsistent with this Court's decree in Icicle Seafoods, Inc., 475 U.S. at 713-714, irrespective of any change in legal standard, the Federal Circuit panel erred when it independently culled facts from the record and based its own findings thereon.

In invalidating Ferag AG's patent, the Federal Circuit explained that "[t]he key question in Envirotech, and in the case before us today, is whether, under the totality of the circumstances, the inventor placed his invention on sale,

objectively manifested by a sale or offer for sale of a product that embodies the invention claimed in the patent." [A16]. According to that Court, identification of the allegedly offered product is established by considering all evidence, including memoranda, drawings, correspondence, and witness testimony. Sonoscan, Inc. v. Sonotek, Inc., 936 F.2d 1261, 1263 (Fed. Cir. 1991). Having identified the offered product and applied its interpretation of Envirotech thereto, the district court in the present case found that Bergen had contracted to purchase an EP-SCC conveyor.[1] "[T]he proposal drawings used by Ferag from 1978 to January 1980; the conveyor system shown customers at Ferag AG's European facility; the promotional literature shown to customers; and the time Ferag AG first began to construct an Eberle prototype," [A47], constituted preponderant evidence in support of that conclusion. Incredibly, however, the Federal Circuit panel determined that "this [told] us nothing about what Ferag offered to Bergen." [A17].

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[1] Respondent asserts that "[the] District Court made no such finding ... Indeed, the words "EP-SCC conveyor" do not appear in the District Court's memorandum." [Respd't Br. at 16]. However, the District Court found that the "Eberle" patent was not invalid under section 102(b) after hearing extensive testimony and seeing documents supporting Petitioner's contention that Bergen's contract was for Ferag's existing conveyor, thereby implicitly holding that Bergen contracted to purchase the "EP-SCC".

III. PETITIONER'S PROPOSED "BRIGHT-LINE" STANDARD IS CONSISTENT WITH THE PRINCIPLES OF CONTRACT AND PATENT LAW, AND WITH CONGRESSIONAL INTENT

A. The Proposed Standard Reflects Sound Principles of Contract and Patent Law.

Respondent's argument that the "bright-line" standard proposed by Petitioner runs counter to the principles of both contract and patent law is without merit. Contrary to Respondent's assertion, Petitioner does not suggest that a "meeting of the minds," i.e., an "agreement," must always exist to implicate Section 102(b). Rather, Petitioner unequivocally agrees that it is a "sale **or an offer** for sale" which invokes the "on sale" bar and distinguishes between the two.

The Federal Circuit's policy based application of Section 102(b), utilized whether a sale or an offer for sale is involved, is illogical. Of the four policies currently underlying the bar, only two are implicated by an offer for sale: (1) discouraging removal of inventions from the public domain that the public reasonably has come to believe are freely available; and (2) favoring the prompt and widespread disclosure of inventions. The third and fourth policies: (3) allowing the inventor a reasonable amount of time following sales activity to determine the potential economic value of a patent; and (4) prohibiting the inventor from commercially exploiting his invention beyond the statutorily prescribed time, are meaningful only when there is a completed sale prior to the critical date.

While the Federal Circuit panel concluded that Ferag

AG had commercialized its patented EPI-EPII conveyor grippers before January 15, 1980, the parties' transaction remained incomplete until January 24, 1980, at the very earliest. Moreover, because "no one at Bergen knew that Ferag would supply a conveyor system within the claims of the patent," [A17], the public had no reason to believe the grippers were "freely available." The sole remaining policy -- favoring the prompt and widespread disclosure of inventions -- is insufficient, by itself, to trigger Section 102(b). S. Schaefer, Envirotech Corp. v. Westech Engineering, Inc.; The On-Sale Bar to Patentability and Executory Sales Offers, 75 Minn. L. Rev. 1505, 1508 (1991).

B. Respondent's "Time-Honored" Legal Principles Are Incomplete in Light of 1836 Congressional Objectives.

Respondent defends the current "policy-balancing" approach by arguing that its foundation rests upon "time honored legal principles" which the Federal Circuit "must strictly enforce." (Respd't Br. at 21). However, the policies were not even judicially recognized until 1981 in General Electric Company v. United States, 654 F.2d 55 (1981), and then only after initially being formulated in a student-written law review article. Moreover, the policies are inconsistent with 1836 Congressional objectives[2].

In enacting the "on sale" bar, Congress sought to

[2] The "on sale" bar did not appear until the Patent Act of 1836. Act of April 28, 1836, ch. 88, § 7, Stat. 354.

prevent the "evils" inherent in earlier patent acts, among the most serious of which was the fraudulent practice of copying a patented device, making a minor modification to it, and thereafter applying for and receiving a patent on the revision. See S. Rep. No. 239, 24th Cong., 1st Sess. 2 (1836). The new patentee would then sell his or her rights to third parties, who had no means by which to detect any encumbrance. Id. Consistent with Petitioner's proposed standard and Respondent's plea to "strictly enforce the intent of Congress," Section 102(b)'s underlying policies should be to foster an informed public and prevent fraud on the marketplace -- something the Envirotech decision does not do.

IV. ENVIROTECH REVEALS THE INCONSISTENCY INHERENT IN THE POLICY BALANCING APPROACH

Respondent's attempted reconciliation of Envirotech Corp. v. Westech Eng'g Inc., 904 F.2d 1571 (Fed. Cir. 1990) and this decision illustrates the very inconsistency and subjectivity inherent in the current "policy balancing" approach. In Envirotech, the seller actually did place its new, patented hydroballester design "on sale" before the critical date, as manifested by the drastic thirty-five percent price differential between its initial and subsequent bids, the latter made after the new design was complete but before the critical date. The district court found the bar to be applicable. The Federal Circuit reversed the district court despite the fact that Envirotech Corp. would not have secured the contract without quoting the "patented" design

price.

Unlike Envirotech Corp., Ferag AG did not violate Section 102(b)'s cardinal policy prohibiting commercial exploitation before the bar date. Rather, its activities may have, at most, implicated the policy which favors the prompt and widespread disclosure of inventions -- once again, individually insufficient to justify invocation of the "on sale" bar. S. Schaefer, supra, at 1508 (1991).

While Petitioner does not proffer another case to illustrate the inconsistency between this conclusion and those of similar "on sale" adjudications, there exists no other decision, on any level, which cites to Envirotech's "objective" evidence standard. Additional comparisons cannot, therefore, be condoned. Moreover, Respondent's cite to Hobbs v. United States Atomic Energy Comm'n, 451 F.2d 849 (5th Cir. 1971), as being consistent with the facts of this case is without merit. Whereas, the parties in Hobbs contracted specifically for the development and sale of a new technology, Ferag AG had admittedly not even conceived its patented gripper design until four months after signing the "Partnership Agreement" with Bergen.

V. PETITIONER'S "BRIGHT-LINE" STANDARD FOSTERS OBJECTIVITY AND PREDICTABILITY IN "ON SALE" ADJUDICATIONS

Respondent argues that Petitioner's modification of the current "policy balancing" approach would actually "decrease the certainty of inventors." (Respd't Br. at 28). That argument is non-sensical. Currently there exists no basis to proactively

determine the point in time at which the Federal Circuit will invoke Section 102(b). For example, in In re Thies, 610 F.2d 786, 792 (C.C.P.A. 1979), a case cited favorably by Respondent, the court went so far as to indicate that "[o]n sale status may be found from activity in attempting to market the invention." The phrase "attempting to market" is even more amorphous than "offer for sale". One Federal Circuit panel may interpret its definition to encompass a marketing committee's internal discussions. Another might interpret it to require more overt marketing efforts. Hence, it is irrelevant that "objective" evidence smacks of an "offer for sale" under 102(b) when the meaning of "an offer" remains a mystery.

Petitioner's proposed "bright-line" standard relieves the Federal Circuit of a case-by-case interpretation burden, thereby encouraging consistency and predictability in "on sale" adjudications. Moreover, since one may not commercially exploit his or her invention without a completed transaction -- a "meeting of the minds" -- it is fitting that Petitioner's standard considers both parties' beliefs.

Respectfully submitted,

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